

Record – QuickView

19 November 2012

Investment summary: H1 profits beat

Interim profits are lower than in the prior-year period but stronger than the market may have inferred from the previously announced equivalent of assets under management (AUM). Revenue is lower, as expected, due to a lower product revenue mix on higher average funds. But cost control has been better than expected and appears sustainable, leading to full-year earnings upgrades. It is positive that AUM equivalent is again growing but for now this is focused on lower fee margin passive hedging products. Over the past 18 months Record has invested in sales and marketing and in broadening its higher margin product set. With successful translation of these efforts into further fund growth, especially in higher margin products, the potential operational gearing in the business model should become apparent.

Funds are growing again and costs controlled

Record has a fairly concentrated client base (43 compared with 41 in March 2012) and was negatively affected a little over a year ago by the loss of its second-largest dynamic hedging client. Funds are growing again but focused for now on passive hedging products where revenue margin is thinner (c 3bp versus c 19bp for dynamic hedging). Costs have again been reduced, while maintaining investment in new marketing and product initiatives that have the potential to boost future revenues. Management sees immediate potential for further business wins from traditional clients in passive hedging and is working hard to stimulate demand for hedging products and establish itself in the large US market. Meanwhile, efforts to broaden the offering of higher margin, active currency for return (not for hedging) products has been rewarded with a first multi-strategy currency mandate.

Consensus estimates: Upgrades driven by costs for now

Earnings estimates are likely to increase as a result of strong cost control. We expect consensus EPS to move from 1.7p to c 1.8p for March 2013 and from 2.3p to c 2.5p for March 2014.

Valuation: Premium to sector

The P/E for a calendarised 2013e is 15x, a noticeable premium to the broader asset management sector (c 13x). But Record holds a cash balance of c £26m, nearly 50% of the market capitalisation, and the yield is attractive, with consensus forecasting growing dividend cover.

Price 27p
Market cap £59m

Share price graph



Share details

Code REC
Listing LSE
Sector Financial services
Shares in issue 219.5m

Business

Record is a specialist currency manager, providing both absolute return and currency hedging mandates to institutional clients. Services include currency alpha strategies via funds or segregated accounts, active and passive hedging.

Bull

- Strong cash-rich balance sheet.
- Passive hedging a low risk, core revenue base.
- New marketing and product initiatives yet to contribute.

Bear

- Customer concentration risk.
- Lack of clear trends in asset returns.
- Historic revenue pressures.

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Consensus estimates

Year end	Revenue (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
03/11	28.2	12.5	4.0	4.6	6.8	17.0
03/12	20.5	6.7	2.2	1.5	12.3	5.6
03/13e	18.0	5.0	1.7	1.5	15.9	5.6
03/14e	21.0	7.0	2.3	1.5	11.7	5.6

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